

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 NEA-10 IO-13 ISO-00 AGRE-00
CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 SP-02
STR-04 TRSE-00 FRB-03 OMB-01 /075 W
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FM AMEMBASSY SINGAPORE
TO SECSTATE WASHDC 8362
INFO AMEMBASSY BANGKOK
AMEMBASSY COLOMBO
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY LONDON
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E.O. 11652: N/A
TAGS: EPAP, SN, EIND, ID
SUBJ: NATURAL RUBBER (NR); SINGAPORE INDUSTRY VIEWS

REF: SINGAPORE 2221

1. SUMMARY: EMBOFF HAS DISCUSSED MEETING OF ASSOCIATION OF
NATURAL RUBBER PRODUCING COUNTRIES (ANRPC) TO BE HELD IN
KUALA LUMPUR ON OCTOBER 3 WITH RUBBER ASSOCIATION OF
SINGAPORE (RAS) EXECUTIVE SECRETARY NGOH CHONG HOCK AND
WITH H.G. CHAPPELL, GOODYEAR ORIENT MANAGING DIRECTOR.
THEY BELIEVE MEETING WILL SEE FINAL NOTIFICATION OF AGREE-
MENT AND FIRM DECISIONS ON ITS IMPLEMENTATION. ANRPC WILL
PROCEED WITH ITS BUFFER STOCK ARRANGEMENTS DESPITE UNCTAD/NR
DISCUSSIONS, SINCE ANRPC BELIEVES IT WILL TAKE A LONG TIME
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FOR UNCTAD DISCUSSIONS TO REACH AGREEMENT AND EVEN
LONGER FOR AGREEMENT TO BE IMPLEMENTED. NEITHER SINGAPORE
GOVERNMENT NOR PRIVATE INDUSTRY HERE IS ENTHUSIASTIC ABOUT
ANY NR COMMODITY AGREEMENT (NOR ABOUT COMMODITY AGREEMENTS
IN GENERAL), BUT BOTH ARE PREPARED TO GO ALONG WITH PRO-
DUCER COUNTRIES' EFFORTS TO STABILIZE PRICES. END SUMMARY.

2. BOTH NGOH AND CHAPPELL ARE CONFIDENT THAT SINGAPORE AND THAILAND GOVERNMENTS WILL RATIFY ANRPC BUFFER STOCK AGREEMENT BY OCTOBER 3, WHEN ANRPC REPS WILL MEET IN KUALA LUMPUR TO DECIDE ON STEPS TO IMPLEMENT AGREEMENT. (MALAYSIA, INDONESIA AND SRI LANKA HAVE ALREADY RATIFIED). NEITHER GOS NOR NR MARKET OPERATIVES HERE SEE ANY ADVANTAGE TO SINGAPORE IN A BUFFER STOCK PLAN. SINGAPORE MAKES ITS PROFITS FROM TRADE RATHER THAN PRODUCTION AND THESE PROFITS ARE LIKELY TO BE GREATEST IN A FREE MARKET. THEY UNDERSTAND PRODUCER COUNTRIES' DESIRE TO STABILIZE PRICES, HOWEVER, BOTH TO PROTECT RUBBER GROWERS AND TO EVEN OUT FOREIGN EXCHANGE EARNINGS, AND ARE GRUDGINGLY PREPARED TO PARTICIPATE IN THE ANRPC ARRANGEMENTS, PARTLY FOR SAKE OF ASEAN SOLIDARITY. SINGAPORE IS WORLD'S LARGEST SINGLE RUBBER MARKET, BOTH IN PHYSICAL RUBBER HANDLED AND IN FUTURES, SO THAT NO BUFFER STOCK SCHEME WOULD HAVE A CHANCE OF WORKING WITHOUT SINGAPORE'S PARTICIPATION.

3. NR TRADE HERE ESPECIALLY UNHAPPY BECAUSE GOS HAS THUS FAR INSISTED THAT SINGAPORE'S SHARE IN CAPITAL OF BUFFER STOCK MUST BE PAID IN BY PRIVATE INDUSTRY THROUGH RAS (SEE REFTEL FOR DESCRIPTION OF RAS). TRADE HAS COUNTERPROPOSED THAT GOS PAY IN HALF OF SINGAPORE'S SHARE, BUT HAS NOT YET RECEIVED REPLY, ALTHOUGH TRADE'S PROPOSAL HAS BACKING OF GOS DEPARTMENT OF TRADE. SINGAPORE'S SHARE OF PROPOSED 100,000 METRIC TON BUFFER STOCK IS 11.2 PERCENT, LIMITED OFFICIAL USE

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OR APPROXIMATELY \$16.4 MILLION (US\$6.7 MILLION). SHARES OF OTHER COUNTRIES WILL REPORTEDLY BE PAID IN BY GOVERNMENTS, SO SINGAPORE TRADERS WOULD BE PUT AT COMPARATIVE DISADVANTAGE IN BEARING FULL OR HALF COST OF BUFFER STOCK FINANCING. PAYMENT OF SINGAPORE'S SHARE BY RAS MEMBERS WOULD BE ESPECIALLY ONEROUS AT PRESENT BECAUSE RAS HAS BORROWED TO BUY A NEW HEADQUARTERS BUILDING. GOS HAS SUGGESTED THAT PARTICIPATION BE FINANCED BY RAISING RAS CESS ON NR EXPORTS FROM S\$0.75 PER TON TO S\$1.00 PER TON AND BY PLACING S\$0.20 CHARGE ON EACH CONTRACT. NOT SURPRISINGLY THERE IS LITTLE AGREEMENT WITHIN TRADE, COMPOSED OF DEALERS, BROKERS, MANUFACTURERS BUYING AGENTS AND PRODUCERS SELLING AGENTS, ON FAIR APPORTIONMENT OF COST. CONTRIBUTIONS TO STOCKPILE/FUND WILL BE OF TWO KINDS: 50 PERCENT WILL BE IN CASH TO CONTROLLER OF STOCKPILE AND 50 PERCENT WILL BE PHYSICAL NR HELD IN EACH COUNTRY. FOR SINGAPORE, LATTER CONTRIBUTION WILL MEAN THAT DEALERS WILL HAVE TO HOLD CONSIDERABLY LARGER INVENTORIES.

4. NEITHER NGOH NOR CHAPPELL BELIEVE THAT AN ANRPC STOCKPILE OF 100,000 TONS WILL BE LARGE ENOUGH IN ITSELF, GIVEN TOTAL ANNUAL TRADE OF SOME 3.5 MILLION TONS, TO

CONTROL VOLATILE RUBBER MARKET. CHAPPELL BELIEVES, HOWEVER, THAT ANRPC GOVERNMENTS HAVE A CHANCE OF MAKING THE SYSTEM WORK BY APPLYING MORAL SUASION TO LARGE GROWERS TO RAISE OR LOWER THEIR PRICE, OR EXPORT CONTROLS IF NECESSARY. INDEED, HE FEELS THAT GOVERNMENT'S INTERVENTION IN MARKET WILL BE MORE IMPORTANT THAN STOCKPILE MANAGEMENT. HE STRESSED, HOWEVER, THAT BECAUSE OF GREAT COMPLEXITY AND VOLATILITY OF NR MARKET, STOCKPILE MANAGER WILL HAVE TO BE EXCEPTIONALLY WELL QUALIFIED. SPECULATIVE MARKET (LARGE IN SINGAPORE) CANNOT BE CONTROLLED AND INFLUENCE OF SYNTHETIC RUBBER PRICES IS GREAT AND HARD TO PREDICT, GIVEN PROBLEMS OF FORECASTING OIL PRICES. EXISTENCE OF SYNTHETIC SUBSTITUTE, HOWEVER, SHOULD KEEP BUFFER STOCK INTERVENTION PRICES REALISTIC.

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5. CHAPPELL EXPECTS PRICE RANGE FOR BUFFER STOCK INTERVENTION TO BE BETWEEN S\$1.50 AND S\$2.10 PER KILO, THE RANGE SUGGESTED IN UNCTAD DISCUSSIONS. THIS WOULD MAKE S\$1.80 (US\$0.74) THE MID-POINT. HE BELIEVES THAT BUFFER STOCK MANAGER WILL BE INSTRUCTED TO BEGIN BUYING OR SELLING AT ABOUT S\$0.15 ABOVE OR BELOW MID-POINT, LEAVING A FREE MARKET FLUCTUATION RANGE OF S\$0.30. ASKED ABOUT WHEN AND HOW ANRPC WOULD DECIDE TO ADJUST MID-POINT PRICE IN EVENT OF LONGER RANGE PRICE INCREASE, CHAPPELL THOUGHT A MID-POINT MIGHT BE SET FOR PERIOD OF A YEAR OR SO BUT HE HAD NO CLEAR IDEA OF HOW A NEW MID-POINT PRICE WOULD BE DETERMINED. HE RECOGNIZED PROBLEM OF IDENTIFYING FREE MARKET EQUILIBRIUM PRICE OF NR IF BUFFER STOCK MANAGER WERE ACTIVELY INTERVENING IN MARKET, WHICH WOULD PROBABLY BE CASE IF NEW MID-POINT REQUIRED. CHAPPELL SEES LONGER-TERM INCREASE IN NR PRICES AS INEVITABLE, SINCE NR PRICES WILL FOLLOW SYNTHETIC PRICES, WHICH IN TURN FOLLOW OIL PRICES. HE NOTED THAT 80 PERCENT OF RUBBER USED IN U.S. AND 60 PERCENT OF THAT USED IN WORLD IS SYNTHETIC, SO THAT SYNTHETIC PRICES ARE GOVERNING.

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6. CHAPPELL NOTED THAT THERE HAS BEEN CONSIDERABLE DISCUSSION WITHIN ANRPC ABOUT USE OF NO. 1 RIBBED SMOKED SHEET (RSS) AS INDEX FOR DAILY PRICE FIXING IN RUBBER MARKET. NO. 1 RSS SET AS INDEX FOR OTHER GRADES BEFORE DEVELOPMENT OF BLOCK RUBBER, ESPECIALLY IN MALAYSIA, WHICH CAN BE LAB TESTED RATHER THAN GRADED VISUALLY. NO. 1 RSS IS DECLINING AS PERCENT OF TOTAL RUBBER TRADED AND BLOCK RUBBER PRODUCTION IS INCREASING. MALAYSIAN GOVERNMENT IS PRESSING FOR SUBSTITUTION OF GRADE 20 BLOCK RUBBER AS INDEX GRADE. PROBLEM IS THAT ONLY MALAYSIA AND TO LESSER EXTENT SINGAPORE DO LAB TESTING OF RUBBER, SO THAT INDONESIA AND THAILAND LIKELY TO RESIST CHANGE. POSSIBILITY EXISTS THAT MALAYSIA WILL BEGIN USING NEW INDEX IN KUALA LUMPUR MARKET WITH SINGAPORE RETAINING OLD INDEX.

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7. NGOH WAS PESSIMISTIC ABOUT EARLY AGREEMENT IN UNCTAD ON LARGER (450,000 TONS) NR STOCKPILE AGREEMENT, SINCE SOME MAJOR CONSUMERS (ESPECIALLY FRG) REMAIN OPPOSED. HE WAS EVEN LESS SANGUINE ABOUT WORKABILITY OF COMMON FUND, SINCE IN WORLD-WIDE RECESSION PRICES OF MOST OR ALL COMMODITIES FINANCED BY FUND WOULD PROBABLY FALL AT SAME TIME. UTILITY OF COMMON FUND FOR BUFFER STOCK FINANCING PRESUPPOSES THAT PRICES OF SOME COMMODITIES WILL BE HIGH WHILE OTHERS ARE LOW. HE WAS ALSO SKEPTICAL ABOUT CHANCE OF CONSUMER COUNTRIES PUTTING UP ENOUGH CASH TO PROVIDE COMMON FUND WITH NECESSARY LARGE INITIAL CAPITAL. HE NOTED THAT USSR AND PRC HAVE BEEN ENCOURAGING ADOPTION

OF COMMON FUND BUT SUSPECTED THAT THEIR SUPPORT WOULD REMAIN
LARGELY MORAL RATHER THAN FINANCIAL.

8. ON MECHANICS OF MARKET, CHAPPELL SAID THAT NORMAL FLOW
OF NR IS FROM PRODUCER TO DEALER, WHO IS BROUGHT TOGETHER
WITH BUYERS BY BROKERAGE HOUSES. LARGE MANUFACTURERS
SUCH AS GOODYEAR, HOWEVER, BUY DIRECTLY FROM PRODUCERS.
SMALLER CONSUMERS CANNOT AFFORD TO MAINTAIN BUYERS IN
SINGAPORE OR KUALA LUMPUR AND CONSEQUENTLY PAY SOMEWHAT
HIGHER PRICES FOR THEIR RUBBER.

9. EMBASSY FORWARDING COPIES OF RECENT RAS PUBLICATIONS
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